

COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists active issuing entities. OFM is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. OFM serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, and the Kentucky Local Correctional Facilities Construction Authority.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt as displayed in Table II.

Appropriation supported debt carries the name of the Commonwealth and is either (i) a general obligation of the State, or (ii) a lease revenue obligation of one of its debt issuing agencies created by the Kentucky General Assembly to finance various projects which is subject to state appropriation for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of general obligation bonds in amounts exceeding \$500,000. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

Project revenue notes and bonds are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenue debt is not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance Cabinet is required to intercept any funds appropriated to the University but not yet disbursed and to remit those funds to the Trustee to remedy the default.

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Kentucky Infrastructure Authority Governmental Agencies Program and certain Kentucky Higher Education Student Loan Corporation bond issues are no longer moral

obligation debt.

Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation indebtedness or its project revenue obligations.

TABLE I
ACTIVE DEBT ISSUING ENTITIES

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/ PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</u>
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA/AA+
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low to moderate income residents of the State.	Limited to \$ 2.5 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord. Series)
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Aaa/AAA/NR (Insured)

*Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch.

Certain State Property and Buildings Commission Agency Fund Revenue bonds may have ratings different from those identified above.

The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers.

TABLE II
DEBT OF THE STATE AND ITS AGENCIES
as of 6/30/2007

AGENCY	AMOUNT ISSUED	PRINCIPAL	FISCAL YEAR ENDING		FISCAL YEAR ENDING	
		OUTSTANDING 6/30/2007	6/30/2008 PRINCIPAL INTEREST		6/30/2009 PRINCIPAL INTEREST	
APPROPRIATION SUPPORTED DEBT						
Asset/Liability Commission	1,193,645,000	910,310,000	44,045,000	38,296,033	20,625,000	37,915,581
State Property Buildings Commission	4,461,576,110	2,260,088,365	163,618,365	113,576,091	151,155,000	102,185,584
Turnpike Authority	2,288,149,920	841,906,344	107,880,000	40,391,129	81,996,344	34,825,551
School Facilities Construction Commission	1,144,445,381	788,820,778	69,935,318	32,104,099	65,753,812	29,457,437
Kentucky Infrastructure Authority	187,955,000	120,595,000	12,240,000	5,949,515	12,680,000	5,383,994
Subtotal	9,275,771,411	4,921,720,487	397,718,683	230,316,868	332,210,156	209,768,146
Universities (Agency Fund Supported Debt)						
Eastern Kentucky University	40,780,000	24,350,000	2,315,000	1,110,125	1,935,000	1,009,198
Kentucky State University	5,850,000	5,850,000	315,000	211,661	320,000	206,914
Morehead State University	23,295,000	16,330,000	1,560,000	683,170	1,635,000	617,961
Murray State University	29,105,000	25,065,000	665,000	1,039,981	1,220,000	1,004,550
Northern Kentucky University	67,778,000	62,090,000	805,000	1,984,461	2,455,000	2,460,325
University of Kentucky	170,630,000	145,215,000	8,450,000	5,804,958	8,745,000	5,524,265
University of Louisville	90,425,000	80,145,000	2,690,000	2,887,054	4,095,000	2,938,899
Western Kentucky University	75,460,000	72,460,000	3,185,000	2,418,758	2,865,000	2,740,663
Subtotal	503,323,000	431,505,000	19,985,000	16,140,167	23,270,000	16,502,774
Universities (General Fund Supported Debt)						
Eastern Kentucky University	16,785,000	7,155,000	1,795,000	291,010	1,875,000	218,995
Kentucky State University	8,185,000	3,520,000	830,000	106,285	865,000	83,460
Morehead State University	10,495,000	6,415,000	885,000	229,548	920,000	201,085
Murray State University	2,855,000	1,715,000	320,000	56,348	335,000	47,548
Northern Kentucky University	31,825,000	13,165,000	2,325,000	641,113	2,455,000	527,788
University of Kentucky	29,330,000	12,250,000	3,110,000	371,784	3,200,000	287,178
University of Louisville	88,765,000	51,065,000	7,205,000	1,585,448	7,395,000	1,369,298
Western Kentucky University	15,940,000	7,180,000	2,175,000	202,520	1,945,000	144,420
Subtotal	204,180,000	102,465,000	18,645,000	3,484,054	18,990,000	2,879,770
Subtotal	9,983,274,411	5,455,690,487	436,348,683	249,941,089	374,470,156	229,150,690
NON-APPROPRIATION SUPPORTED DEBT						
Moral Obligation Debt						
Kentucky Housing Corporation	2,510,930,000	2,072,805,000	48,030,000	96,202,703	52,815,000	98,342,559
KY Higher Educ Student Loan Corp	947,250,000	947,250,000	0	44,239,000	0	44,239,000
Subtotal	3,458,180,000	3,020,055,000	48,030,000	140,441,703	52,815,000	142,581,559
Other Revenue Debt						
KY Higher Educ Student Loan Corp	1,100,000,000	1,100,000,000	0	54,102,308	0	54,102,308
Kentucky Infrastructure Authority	43,015,000	36,950,000	3,275,000	1,602,707	3,415,000	1,486,960
Local Correctional Facilities Const Auth	21,670,000	17,885,000	1,995,000	763,406	2,040,000	710,363
Subtotal	1,164,685,000	1,154,835,000	5,270,000	56,468,421	5,455,000	56,299,630
Subtotal	4,622,865,000	4,174,890,000	53,300,000	196,910,124	58,270,000	198,881,189
Total Debt	14,606,139,411	9,630,580,487	489,648,683	446,851,213	432,740,156	428,031,879

FISCAL YEAR ENDING 6/30/2010		FISCAL YEAR ENDING 6/30/2011		FISCAL YEAR ENDING 6/30/2012		REMAINING DEBT SERVICE TO MATURITY	
PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
49,220,000	36,370,097	41,700,000	34,391,953	35,555,000	32,738,917	719,165,000	283,210,365
127,800,000	95,328,960	131,600,000	89,032,744	140,360,000	82,531,060	1,545,555,000	421,308,837
89,030,000	31,280,008	46,040,000	27,372,890	46,860,000	25,127,084	470,100,000	151,653,848
61,777,948	26,889,949	52,016,048	24,573,256	46,103,497	22,565,854	493,234,155	138,075,163
11,740,000	4,779,565	12,325,000	4,211,431	9,825,000	3,616,399	61,785,000	15,461,006
339,567,948	194,648,579	283,681,048	179,582,274	278,703,497	166,579,314	3,289,839,155	1,009,709,219
2,020,000	929,243	2,110,000	844,894	1,070,000	754,745	14,900,000	4,619,444
340,000	195,314	350,000	182,989	360,000	170,301	4,165,000	1,285,230
1,705,000	548,525	1,430,000	483,855	1,190,000	431,614	8,810,000	2,046,454
1,065,000	959,935	1,115,000	916,155	1,155,000	870,183	19,845,000	6,525,004
2,555,000	2,363,381	2,530,000	2,265,909	2,620,000	2,168,184	51,125,000	17,774,903
9,060,000	5,226,985	9,380,000	4,910,254	9,765,000	4,548,595	99,815,000	28,122,646
4,195,000	2,805,921	4,200,000	2,663,825	4,275,000	2,513,983	60,690,000	18,488,446
2,970,000	2,635,066	3,085,000	2,522,676	3,205,000	2,402,235	57,150,000	18,077,080
23,910,000	15,664,369	24,200,000	14,790,556	23,640,000	13,859,839	316,500,000	96,939,207
1,970,000	143,760	1,515,000	62,140	0	0	0	0
890,000	57,510	935,000	29,920	0	0	0	0
950,000	170,045	990,000	136,385	1,020,000	100,998	1,650,000	232,219
340,000	37,498	355,000	26,108	365,000	13,505	0	0
2,585,000	407,285	2,725,000	278,700	2,120,000	141,468	955,000	38,200
3,315,000	192,343	2,625,000	87,450	0	0	0	0
7,535,000	1,128,960	7,720,000	827,560	7,760,000	572,800	13,450,000	524,775
2,015,000	93,420	510,000	34,631	535,000	18,056	0	0
19,600,000	2,230,820	17,375,000	1,482,894	11,800,000	846,826	16,055,000	795,194
383,077,948	212,543,769	325,256,048	195,855,723	314,143,497	181,285,979	3,622,394,155	1,107,443,620
54,190,000	96,198,256	52,225,000	93,959,332	53,250,000	91,731,832	1,812,295,000	1,252,965,487
0	44,239,000	0	44,239,000	46,000,000	43,385,700	901,250,000	760,770,625
54,190,000	140,437,256	52,225,000	138,198,332	99,250,000	135,117,532	2,713,545,000	2,013,736,112
0	54,102,308	0	54,102,308	0	54,102,308	1,100,000,000	1,224,938,240
2,285,000	1,382,602	2,590,000	1,289,550	3,085,000	1,173,925	22,300,000	3,343,989
2,105,000	648,188	2,170,000	559,650	2,280,000	442,838	7,295,000	572,644
4,390,000	56,133,097	4,760,000	55,951,507	5,365,000	55,719,070	1,129,595,000	1,228,854,873
58,580,000	196,570,353	56,985,000	194,149,839	104,615,000	190,836,602	3,843,140,000	3,242,590,985
441,657,948	409,114,122	382,241,048	390,005,562	418,758,497	372,122,581	7,465,534,155	4,350,034,605

Appropriation Supported Debt

TABLE III
DEBT SERVICE ON APPROPRIATION SUPPORTED
DEBT AND STATE REVENUE: 1980-2009
(000)

Fiscal Year	<u>Total Revenue(\$)</u>	<u>Actual Debt Service Net of Any Credits(\$)</u>	<u>Percent Debt Service to Total Revenue (%)</u>
1980	3,576,158	156,750	4.38
1981	3,827,187	165,540	4.33
1982	3,981,114	170,670	4.29
1983	4,176,377	184,890	4.43
1984	4,256,161	201,020	4.72
1985	4,672,445	233,907	5.01
1986	5,083,294	247,380	4.87
1987	5,340,693	247,420	4.63
1988	5,649,272	277,690	4.92
1989	6,019,893	291,891	4.85
1990	6,435,020	304,431	4.73
1991	7,442,083	314,664	4.23
1992	8,022,587	394,436	4.92
1993	8,489,899	394,763	4.65
1994	8,747,561	395,953	4.53
1995	9,920,700	424,646	4.28
1996	10,313,867	435,719	4.22
1997	10,936,974	459,559	4.20
1998	11,599,677	457,442	3.94
1999	11,767,969	460,078	3.91
2000	12,995,761	556,468	4.28
2001	13,271,902	553,149	4.17
2002	13,774,569	526,970	3.83
2003	14,400,148	598,156	4.15
2004	14,737,964	586,469	3.98
2005	15,922,213	564,919	3.55
2006	16,897,297	622,675	3.69
2007	17,344,978	558,385	3.22
2008*	17,589,017	613,949	3.49
2009*	18,004,447	545,080	3.03

* Estimated Revenues for 2008 and 2009 are calculated from Consensus Forecasting Group Estimate released August 10, 2007.

Debt service shown is net of any credits. Debt of the Kentucky Housing Corporation, the Kentucky Higher Education Student Loan Corporation, the Kentucky Economic Development Finance Authority (Industrial Revenue Bonds), and the Kentucky Local Correctional Facilities Construction Authority is excluded. Only that portion of the School Facilities Construction Commission and the Kentucky Infrastructure Authority debt paid from state appropriations is included. Revenue is reported on a GAAP basis as opposed to a cash basis as is reported in certain budget reports.

NOTES TO THE DEBT REPORT

1. KENTUCKY TURNPIKE AUTHORITY - Economic Development 1992 Revitalization: Debt service reserve investment income and principal is applied to the final 12-30-2009 maturity.

Economic Development 1993 Revitalization: The investment income from the debt service reserve is applied to debt service through 12-30-2008. The income and principal of the reserve is applied to final maturity at 6-30-2009.

2. KENTUCKY TURNPIKE AUTHORITY - Resource Recovery 1985: The investment income from the debt service reserve is applied to debt service beginning 12-30-2006. The income and principal of the debt service reserve is applied to the final 6-30-2009 maturity.

3. KENTUCKY TURNPIKE AUTHORITY - scheduled debt service reflects July 1 debt service as being paid on June 30, and therefore shows outstanding principal being reduced one fiscal year in advance.

4. KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY - The Authority acts as a conduit for the issuance of various private activity hospital and industrial revenue bonds. Principal amounts due and interest rates on most issues are subject to periodic change. The state has no liability for debt service on these types of bonds. Principal and interest payments are the responsibility of the borrowing parties.

Bonds are also issued on behalf of approved companies and economic development projects in an effort to create jobs in high unemployment counties within the Commonwealth. The companies have entered into lease financing agreements with the Commonwealth in amounts sufficient to provide debt service on the bonds, and are eligible for state corporate income tax credits due to their participation in the program. Neither the Commonwealth nor any of its departments or agencies will have or incur any liability, directly or indirectly, for payment of the principal or the interest on these types of bonds.

Issues closed in Fiscal Year 2007:

<u>Project Name</u>	<u>Amount</u>	<u>Initial Rate</u>	<u>Type</u>	<u>Maturity</u>
Ashland Hospital Corporation (King's Daughters Medical Center) Ashland (Boyd County) Series 2006	\$40,000,000	4.91%	Variable	2036
Adventist Long-term Care Obligated Group (Princeton, Russellville, Leitchfield, and Mayfield) Series 2007	\$8,840,000	3.98%	Variable	2036

5. KENTUCKY HOUSING CORPORATION - The Corporation acts as a conduit for the issuance of private activity multifamily mortgage bonds. The Corporation and the Commonwealth have no liability for debt service on these bonds, the proceeds of which are used to finance the construction or rehabilitation of multifamily housing for residents of lower income. Principal and interest payments are the responsibility of the borrowers who are developers of the low income multifamily housing.

Issues closed in Fiscal Year 2007:

<u>Project Name</u>	<u>Amount</u>	<u>Initial Rate</u>	<u>Type</u>	<u>Maturity</u>
Shalom Towers (Louisville, KY)	\$6,700,000	4.25%	Variable	2038
Arbors of Madisonville (Madisonville, KY)	\$2,100,000	4.25%	Variable	2037
Canterbury (Southgate, KY)	\$13,880,000	4.25%	Variable	2040

6. KENTUCKY INFRASTRUCTURE AUTHORITY - On 7/29/04 tax-exempt refunding bonds of \$25,640,000 and taxable bonds of \$17,375,000 were issued to refund or defease all of the outstanding bonds of the Governmental Agencies program. The security for the new bonds is solely from the loan repayments of the borrowers and from the Debt Service Reserve Fund. The state's Moral Obligation to appropriate debt service in the event of a shortfall has been removed.
7. ASSET/LIABILITY COMMISSION - \$24,280,000 of 2005 Agency Fund Second Series Project Indexed Put Notes were sold on various dates for the benefit of the Economic Development Cabinet, University of Louisville, Northern Kentucky University, and Western Kentucky University. This program allows additional draws for project fundings until 4/2/09 and is available to other state universities and state agencies. The notes bear interest at a variable rate which resets monthly based on a spread to the Bond Market Association Index but may not exceed 9%. The interest is estimated at a 4.40% rate.
8. ASSET/LIABILITY COMMISSION-\$100,000,000 of 2005 General Fund Second Series Project Notes were sold on 11/1/05 in the Commercial Paper Mode. On 1/18/07 an additional \$100,000,000 were sold in the Commercial Paper Mode; an additional \$100,000,000 were sold in the Commercial Paper Mode on 6/21/07. The Notes, of which \$200,000,000 are outstanding at 6/30/07, are issuable in an amount not to exceed \$950,000,000 and the final maturity may not extend beyond 11/1/2025. The notes are periodically remarketed with interest rates resets. The interest shown is estimated at the appropriated 4.40% rate.

9. STATE PROPERTY AND BUILDINGS COMMISSION - All issues listed as Agency Fund projects are issued on behalf of various agencies, e.g. state universities, State Fair Board, etc. While these bond issues are shown as liabilities of the State Property and Buildings Commission, the debt service is a liability of the various state agencies for which the bonds were issued and is reflected as debt outstanding on the financial statements of the respective agencies as well.
10. STATE PROPERTY AND BUILDINGS COMMISSION - The State Property and Buildings Commission issued \$41,380,000 taxable refunding bonds on June 29, 1987, to refinance \$67,026,000 outstanding academic facility and housing and dining system revenue bonds composed of 55 individual bond issues of Eastern Kentucky University, Morehead State University, Murray State University, Northern Kentucky University, the University of Kentucky, the University of Louisville and Western Kentucky University. The pre-existing debt of the refunded bonds is recognized in the financial statements of the respective universities, since these amounts are still considered an outstanding obligation of the respective universities. While this issue is shown as a liability of the State Property and Buildings Commission also, it continues to be a liability of the various state universities and is reflected in their debt outstanding as well.

		<u>Outstanding</u>		<u>Final</u>
	<u>Series</u>	<u>6/1/1987</u>	<u>6/30/2007</u>	<u>Maturity</u>
Eastern Kentucky University				
Housing System Revenue	A	\$150,000	0	-
	B	905,000	0	-
	C	1,860,000	0	-
	D	1,740,000	0	-
	E	1,571,000	0	-
	G	2,674,000	0	-
	I	3,000,000	0	-
Eastern Kentucky University				
Consolidated Educational				
Bldgs.	F	935,000	0	-
	H	540,000	0	-
Morehead State University				
Housing and Dining	A	515,000	0	-
	B	370,000	0	-
	C	265,000	0	-
	D	595,000	0	-
	E	100,000	0	-
	F	390,000	0	-
	G	980,000	0	-
	H	1,175,000	0	-
	I	2,580,000	0	-

Murray State University

Housing and Dining	A	250,000	0	-
	B	280,000	0	-
	C	345,000	0	-
	D	400,000	0	-
	E	230,000	0	-
	F	805,000	0	-
	G	245,000	0	-
	H	1,215,000	0	-
	I	1,357,000	0	-
	J	310,000	0	-
	K	2,045,000	0	-
	L	1,660,000	720,000	9/2008
Murray State University				
Consolidated Educational Bldgs.	C	1,130,000	0	-
	E	1,413,000	0	-
Northern Kentucky University				
Housing System	B	4,425,000	2,635,000	11/2020
University of Kentucky				
Housing and Dining	A	140,000	0	-
	B	200,000	0	-
	C	330,000	0	-
	D	655,000	0	-
	E	645,000	0	-
	F	665,000	0	-
	G	1,115,000	0	-
	I	8,000,000	0	-
	K	4,020,000	0***	-
University of Kentucky				
Consolidated Educational Bldgs.	C	1,815,000	0	-
Community College Education				
Building Revenue Bonds	B	3,130,000	0*	-
University of Louisville				
Academic Building Bonds (1969)		1,243,000	0	-
Western Kentucky University				
Housing and Dining	A	326,000	0	-
	B	278,000	0	-
	C	293,000	0	-
	D	370,000	0**	-
	E	685,000	0**	-
	F	676,000	0**	-
	H	500,000	0**	-
	I	2,915,000	0**	-
	J	2,010,000	0**	-
Western Kentucky University				
Consolidated Educational Bldgs.	E	<u>560,000</u>	<u>0</u>	-
Total		\$67,026,000	\$3,355,000	

* Fully refunded by State Property and Building Commission Project 82.

**Refunded by WKU Student Life Foundation , Inc. on 5/25/00.

***Refunded by ALCO/UK General Receipts 2006 Series A, B Notes issued 10/18/06.

11. The Gas Pipeline Authority and the Kentucky River Authority have the authority to issue bonds but have no debt outstanding.